THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

January 2016

Taxing Rich More Heavily: A Vote Getter, But Ineffective in Reducing Inequality

Even the down home atmosphere of Omaha's Sokol Auditorium could not hide the irony of mega rich Hillary Clinton and Warren Buffet speaking on behalf of the non-rich and calling for an increase in income tax rates on high income earners. One of the goals of their proposals is to cut income inequality.

However, 17 years of income data should smack some reality into their misguided proposal. In 2013, the top 10% of U.S. income earners paid approximately 75% of income taxes while the bottom half of income earners received more back from the IRS in cash via programs such as the Earned Income Tax Credit than they paid in income taxes (a negative burden). But 17 years earlier, the top 10% of earners paid roughly 60% of income taxes while the bottom half paid 9% of the income taxes.

Thus between 1996 and 2013, the share of federal income taxes paid by the "rich" increased while that of the bottom half of taxpayers declined. What happened to income inequality during this period of time? The top 10 percenters' share of income rose from 50% to 64% and that of the bottom half declined from 12% to 8%. Furthermore the Gini coefficient, which measures income inequality, indicated that between 1996 and 2013, the income distribution tilted more in favor of the rich. Moreover in 2013, the 9 states with no income tax had lower Gini coefficients, (i.e. less income inequality) than the remaining states.

Thus, federal and state income tax data provide absolutely no evidence that taxing the income of the rich more heavily reduces income inequality. Taxing the rich more heavily is a "vote getter" only making sense to politicians and those closer to the end of their income earning career than the beginning. Ernie Goss.

MAINSTREET RESULTS

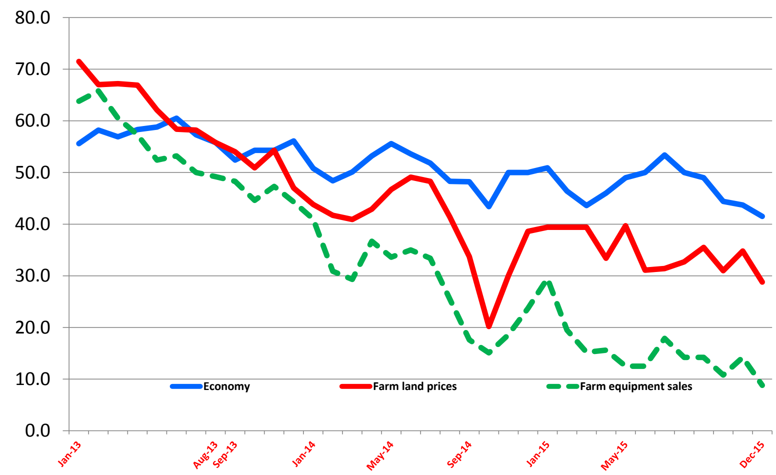
Rural Mainstreet Index Falls Below Growth Neutral for Fourth Straight Month: Record-Low Agriculture Equipment Sales

Table 1: The Mainstreet Economy	Dec 2014	Nov 2015	Dec 2015
Area Economic Index	50.0	43.7	41.5
Loan volume	76.7	59.6	61.0
Checking deposits	62.1	70.7	64.7
Certificate of deposits	44.0	51.1	46.4
Farm land prices	38.6	34.8	28.8
Farm equipment area sales	23.7	14.2	8.8
Home sales	51.7	56.5	55.0
Hiring in the area	55.2	52.1	54.9
Retail Business	55.3	43.7	51.2
Economy 6 months from now	42.5	38.9	39.8

Survey Results at a Glance:

- For a fourth straight month, the Rural Mainstreet Index fell below growth neutral.
- Farm equipment sales declined to record low level.
- Bankers expect holiday Rural Mainstreet retail sales to expand by less than one percent from last year.
- Farmland prices declined again. Bank CEOs expect another 5.9 percent decline in farmland over the next year.

Rural Mainstreet Economy Jan. 2013 – Dec. 2015



The Creighton University Rural Mainstreet Index for December fell from November's weak reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100, sank to 41.5 from November's 43.7.

This is the fourth straight month the overall index has declined, reflecting weakness stemming from lower agriculture and energy commodity prices and from downturns in manufacturing. Adding to the economic malaise was the free fall in beef prices over the past month.

According to Jim Eckert, president of Anchor State Bank in Anchor, Illinois, "Decreases in commodity prices and uncertainty for 2016 have resulted in lower land prices and reductions in machinery purchases. However, cash rents are staying about the same."

Farming and ranching: The farmland and ranchland price index for December sank to 28.8 from November's weak 34.8. This is the 25th straight month the index has moved below growth neutral. But, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices with prices growing in some portions of the region.

This month bankers were asked to predict the change in farmland prices in their area over the next year. On average bank CEOs expect farmland prices to drop by another 5.9 percent over the next year.

As farm income has declined so has the share of farmland cash sales. Over the past year, the percentage of cash sales of farmland has declined by three percent. I expect the percent of cash sales of farmland to decline even more in the months ahead.

The December farm equipment-sales index plummeted to a record low 8.8 from 14.2 from November. The strengthening U.S. dollar and global economic weakness have pushed farm commodity prices down by eight percent over the past 12 months. These weaker prices have discouraged farmers from buying additional agriculture equipment and have negatively affected the agriculture equipment dealers and manufacturers in the region.

Jeffrey Gerhart, chairman of Bank of Newman Grove, Newman Grove, Nebraska, "Ag bankers and their farm customers should be stress testing their 2016 crop projections. Take their estimated projection of crop income and then lower it by 10, 20, 30 percent or more." Furthermore Gerhart said bankers and their customers need to "be prepared" for tighter margins going forward.

Banking: The December loan-volume index rose to 61.0 from last month's 59.6. The checking-deposit index declined to 64.7 from November's 70.7, while the index for certificates of deposit and other savings instruments climbed to 46.4 from 38.9 in November.

Hiring: Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to add workers to their payrolls and at a faster pace. The hiring index jumped to 54.9 from 52.1 in November. Rural Mainstreet businesses continue to hire additional workers as non-farm and non-energy related businesses continue to expand.

Confidence: The confidence index, which reflects expectations for the economy six months out, increased to 39.8 from 38.9 in November, indicating a pessimistic outlook among bankers. The recent free fall in beef futures prices combined with already anemic agriculture crop prices pushed bankers' economic outlook into this weak zone.

Home and retail sales: The December home-sales index slipped to 55.0 from 56.5 in November. The December retail-sales index climbed to 51.2 from 43.7 last month. Home sales on Rural Mainstreet have been very healthy over the last several months. On the other hand, Creighton's monthly survey has yet to measure any significant upturn in retail sales resulting from the downturn in fuel prices.

Bank CEOs expect lackluster holiday sales growth from the 2014 season. On average, a one percent increase in retail sales for Rural Mainstreet businesses is expected. The strong dollar, especially against the Canadian dollar, is depressing retail sales among border states. For example, John Marchell, president of the First State Bank Grand Forks, North Dakota, said, "The decrease in the number of Canadian retail customers is noticeable."

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included. The survey is supported by a grant from Security State Bank in Ansley, Neb.

This survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

MAIN$TREET ON YOUR $TREET

COLORADO
The state's Rural Mainstreet Index (RMI) increased to 46.3 from 43.4 in November. The farmland and ranchland price index improved slightly to a frail 20.9 from November's 19.7. Colorado's hiring index for December rose to 51.1 from November's 47.2.

ILLINOIS
The December RMI for Illinois declined to 39.8 from 43.2 in November. The farmland-price index fell to 24.8 from November's 28.6. The state's new-hiring index expanded to 52.6 from last month's 50.8.

IOWA
The December RMI for Iowa sank to 40.8 from November's 44.3. Iowa's farmland-price index for December increased to 32.1 from November's 28.6. Iowa's new-hiring index for December advanced to 55.2 from 50.9 in November.

KANSAS
The Kansas RMI for December sank to 39.2 from November's 43.9. The state's farmland-price index for December fell to 24.7 from November's 28.8. The new-hiring index for Kansas climbed to 52.2 from 50.9 in November.

MINNESOTA
The December RMI for Minnesota slumped to 37.0 from November's 43.3. Minnesota's farmland-price index slumped to 17.8 from 28.5 in November. The new-hiring index for the state slipped to 50.0 from last month's 50.8. "Record yields in our area. Cash flows better then projected with the warmest winter we have ever had," said Pete Haddeland, CEO of the First national Bank in Mahnomen.

MISSOURI
The December RMI for Missouri dipped to 38.6 from 39.4 in November. The farmland-price index plummeted to 22.6 from November's 30.9. Missouri's new-hiring index expanded slightly to 51.8 from November's 51.7.

NEBRASKA
The Nebraska RMI for December slumped to 36.3 from 40.1 in November. The state's farmland-price index fell to 12.3 from November's 20.8. Nebraska's new-hiring index increased to 48.0 from 47.7 in November.

NORTH DAKOTA
The North Dakota RMI for December decreased to a regional low of 29.8 from November's 31.3, also a regional low. The farmland-price index sank to 20.0 from 37.0 in November. North Dakota's new-hiring index declined to 30.0 from November's 31.0.

SOUTH DAKOTA
The December RMI for South Dakota fell to 44.3 from 46.9 in November. The farmland-price index sank to 45.3 from 49.2 in November. South Dakota's new-hiring index expanded to a healthy 60.0 from November's 59.0.

WYOMING
The December RMI for Wyoming increased to 43.6 from November's 42.3. The December farmland and ranchland-price index climbed to 32.0 from 30.2 in November. Wyoming's new-hiring index rose to 55.2 from November's 51.4.

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THE BULLISH NEWS

- The U.S. added a spectacular 292,000 jobs in December and the unemployment rate was unchanged at a low 5.0%. It pushed the likelihood of a Fed rate hike at its March 2016 meetings to 40%.
- The Case-Shiller home price index for October 2015 was 5.2% above that for October 2014. We are tracking more and more housing price bubbles across the U.S.

THE BEARISH NEWS

- Over the past 12 months, the U.S. oil & gas extraction industry has lost 17,000 jobs (-8.3%).
- Retail sales for November were weak expanding by only 1.7% from November 2014. When the holiday buying numbers come in later this month, I expect them to be ho-hum.

WHAT TO WATCH

- **CPI:** On Jan. 20, the Bureau of Labor Statistics will announce the consumer price index for December. Note: the core CPI excludes food and energy. The latest release indicated 2.0% year over year growth. A YOY growth number over 2.0% will be a concern for the Fed and will likely push them to raise rates in March 2016.
- PMIs: On Feb. 1, the first business day of February, Creighton and the National Institute for Supply Management will release regional and national PMIs for January. Both PMIs are moving lower. Very weak readings for both, which I expect, will be bearish for stocks.
- GDP: On Jan. 29, the U.S. Bureau of Economic Analysis will release preliminary GDP growth numbers for Q4, 2015. Annualized growth below 1% (I expect 2%), would be a very negative signal for the 2016 economy.

THE OUTLOOK

FROM GOSS:

- I expect a 25 basis point (¼%) increase in short term interest rates from the Federal Reserve at their March 2016 meeting.
- Manufacturing, especially that linked to agriculture and energy will continue to limp along with overall job losses.

OTHER FORECASTS:

- National Association of Business Economics. (January 2016) NABE's December Outlook Survey panelists have lowered their forecasts for economic growth in 2015 following a slowdown in the third quarter," according to NABE President Lisa Emsbo-Mattingly, CBE, director of research, Global Asset Allocation at Fidelity Investments. "The panel's median forecast is for the economy to grow 2.2% net of inflation from the fourth quarter of 2014 to the fourth quarter of 2015—a slight decrease from the 2.5% forecasted in the October 2015 survey. Growth is expected to improve slightly next year—to 2.6%—although that represents a small downgrade from the previous survey's 2016 forecas.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Chinese financial regulators once again demonstrated how government overreach in markets creates more problems than it solves. Beginning in 2016, regulators were required to shut down markets when stock prices rose or fell by 5% or more. They dropped the rule after only 4 days in operation as the rule whipsawed financial markets.

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This month's survey results will be released on the third Thursday of the month, Jan. 21.